

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

Chair, Carol Liu

Member, Robert Huff

Member, Roderick Wright

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Item 1: Overview of the Governor's Budget Proposals

Speakers:

- Steve Boilard, Legislative Analyst's Office
- Chancellor Jack Scott, California Community Colleges
- Patrick Lenz for President Mark Yudof, University of California
- Robert Turnage for Chancellor Charles Reed, California State University
- Lynn Podesta, Department of Finance

Higher Education Budget History: 2007 to Present

Higher Education Compact. In the spring of 2004, the Governor developed a *Compact* with the University of California (UC) and California State University (CSU), which calls for the Governor to provide the UC and CSU with a specified level of General Fund support as part of his annual budget proposal. In exchange for the *Compact's* "guaranteed" level of funding, the UC and CSU agreed to a variety of accountability measures and outcomes. Among these outcomes was improved course articulation agreements for most majors to facilitate transfers from community colleges to UC or CSU. The Schwarzenegger administration's *Compact* with the higher education systems mirrors past funding agreements between former governors Wilson and Davis and the higher education systems.

It is important to note that the Legislature is not a part of this funding agreement nor was it consulted when the agreement was being developed. Thus, in choosing the appropriate funding level for the higher education segments, the Legislature is in no way bound by the *Compact*.

Some major elements of the higher education compact are:

- Applicable from 2005-06 to 2010-11.
- For 2005-06 and 2006-07, the *Compact* provides a three percent annual General Fund increase to the UC and CSU for cost-of-living adjustments (COLA), salary, and other price increases. From 2007-08 to 2010-11, the *Compact* provides increases of four percent annually in General Fund.
- The *Compact* provides a 2.5 percent enrollment growth annually for its duration. This is approximately 5,000 full-time equivalent students (FTES) at UC and 8,490 FTES at CSU annually.
- Beginning in 2007-08, the *Compact* promises the UC and CSU systems an additional one percent General Fund increase to address long-term funding issues such as instructional equipment and technology, library support, and building maintenance.
- The *Compact* restricts increases in undergraduate student fees to the rise in per capita personal income, not to exceed ten percent per year. The student fee increases were intended to serve as additional funding to the segments' General Fund, rather than replacement of the State's support.

Last “Normal” Year. The Legislative Analyst’s Office (LAO) considers 2007-08 to be the most recent “normal” budget year for the higher education segments. The *2007-08 Budget Act* funded the higher education *Compact*, including enrollment growth and cost-of-living increases for all three segments, no large unallocated reductions were imposed, and no payments for new costs were deferred to future years. The higher education *Compact* was not funded by the Governor in 2008-09 or 2009-10, nor is it proposed for funding in 2010-11.

UC Funding Reductions. The total UC General Fund support has declined by about \$660 million from 2007-08 to 2009-10. This is approximately 20 percent of the UC’s General Fund budget. In 2008-09, the UC system received \$716.5 million in one-time American Recovery and Reinvestment Act of 2009 (ARRA) funds that served to backfill most of the lost General Fund support. Between 2007-08 and 2009-10, increased student fees raised about \$300 million for the UC system (after a set-aside for student financial aid).

CSU Funding Reduction. The total CSU General Fund support has declined by about \$625 million from 2007-08 to 2009-10. This is approximately 20 percent of the CSU’s General Fund budget. In 2008-09, the CSU system received \$716.5 million in one-time ARRA funds that served to backfill a General Fund cut of the same amount. Between 2007-08 and 2009-10, increased student fees raised about \$260 million for the CSU system (after a set-aside for student financial aid).

CCC Funding reductions. Between 2007-08 and 2009-10, the Proposition 98 funding level for CCC was reduced by about \$438 million. Of this amount, \$17.6 million was due to lower than anticipated local property tax revenue. However, once increased student fees (\$80 million), one-time ARRA funds, and deferrals are counted, the total decrease in CCC programmatic funding is \$295 million. The impacts of the recent budget cuts vary widely between community college campuses, because some districts had greater financial reserves that they were able to use to backfill the state cuts. It is important to note that the ARRA funds and local financial reserves were largely one-time funds, so it is possible that if those funds are not backfilled with other revenue there will be reductions to course selections and student services.

Governor's Proposed 2010-11 Budget

Higher Education Core Funding

(dollars in millions)

	2007-08 Actual	2008-09 Actual	2009-10 Estimated	2010-11 Proposed
University of California				
General Fund	\$ 3,257.4	\$ 2,418.3	\$ 2,596.1	\$ 3,018.6
Student Fees	\$ 1,116.8	\$ 1,166.7	\$ 1,422.9	\$ 1,794.4
ARRA	\$ -	\$ 716.5	\$ -	\$ -
Lottery	\$ 25.5	\$ 24.9	\$ 28.1	\$ 26.7
Totals	\$ 4,399.7	\$ 4,326.4	\$ 4,047.1	\$ 4,839.7
California State University				
General Fund	\$ 2,970.6	\$ 2,155.3	\$ 2,350.1	\$ 2,723.4
Student Fees	\$ 900.3	\$ 1,092.1	\$ 1,158.1	\$ 1,260.5
ARRA	\$ -	\$ 716.5	\$ -	\$ -
Lottery	\$ 58.1	\$ 42.1	\$ 45.8	\$ 43.6
Totals	\$ 3,929.0	\$ 4,006.0	\$ 3,554.0	\$ 4,027.5
California Community Colleges				
General Fund	\$ 4,202.3	\$ 3,992.1	\$ 3,764.4	\$ 4,009.1
Student Fees	\$ 291.3	\$ 302.7	\$ 357.3	\$ 365.2
Local Property Taxes	\$ 1,970.7	\$ 2,010.7	\$ 1,953.2	\$ 1,913.3
ARRA	\$ -	\$ -	\$ 35.0	\$ -
Lottery	\$ 168.7	\$ 148.7	\$ 160.8	\$ 153.2
Totals	\$ 6,633.0	\$ 6,454.2	\$ 6,270.7	\$ 6,440.8
Hastings College of the Law				
General Fund	\$ 10.6	\$ 10.1	\$ 8.3	\$ 8.4
Student Fees	\$ 21.6	\$ 26.6	\$ 30.6	\$ 35.7
Lottery	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.2
Totals	\$ 32.3	\$ 36.8	\$ 39.1	\$ 44.3
California Postsecondary Education Commission				
General Fund	\$ 2.1	\$ 2.0	\$ 1.8	\$ 2.0
California Student Aid Commission				
General Fund	\$ 866.7	\$ 888.3	\$ 1,008.9	\$ 1,110.2
Student Loan Operating Fund	\$ 94.9	\$ 117.3	\$ 124.3	\$ 92.3
Grand Total for Higher Education	\$15,925.4	\$15,794.2	\$15,006.8	\$ 16,512.5

The Governor's Budget for 2010-11 contains increased funding for all of the three segments. The major components are outlined here and discussed in greater detail below.

University of California (UC)

- \$305 million increase in General Fund to backfill for lost ARRA funds
- \$51.3 million increase in General Fund for 2.5 percent enrollment growth
- \$564.8 million in new student fee revenue

California State University (CSU)

- \$305 million increase in General Fund to backfill for lost ARRA funds
- \$60.6 million increase in General Fund for 2.5 percent enrollment growth
- \$153.5 million in new student fee revenue, including a ten percent fee increase assumed by the Governor but not yet approved by the CSU Board of Trustees

California Community Colleges (CCC)

- \$126 million increase in Proposition 98 General Fund to fund apportionments
- \$22.9 million decrease in Proposition 98 General Fund to reflect a -0.38 percent cost-of-living adjustment (COLA)
- \$33.7 million increase in General Fund to offset estimated decreases in local property taxes
- \$163 million increase in Proposition 98 General Fund to reflect an increased Community College deferral from \$540 million to \$703 million
- \$28 million decrease in General Fund for the Career Technical Education (CTE) Pathways Initiative program, offset by a \$48 million increase in Quality Education Investment Act (QEIA) funds for the CTE program, for a total of \$68 million for CTE Pathways Initiative Program

UC Budget Increase

The \$305 million General Fund increase proposed by the Governor for the University of California system would be used in some combination for the following expenditures:

- \$184 million to avoid employee furloughs
- \$222.4 million for mandatory cost increases (not including unfunded enrollment)

UC Estimated Mandatory Cost Increases

<i>(dollars in millions)</i>	2008-09 and 2009-10 Combined	Estimated 2010-11
Academic merit salary increases	\$ 55.5	\$ 29.5
Employee health benefits	\$ 60.4	\$ 34.1
Annuitant health benefits	\$ -	\$ 14.1
Compensation increases (10/1/07 contract)	\$ 37.8	\$ -
Employer retirement contributions	\$ 20.0	\$ 88.9
Purchased utilities	\$ 64.1	\$ 10.0
Instructional equipment, technology, library	\$ 21.6	\$ 24.6
Professional school cost increases	\$ 25.4	\$ 21.2
<i>Savings from OP restructuring</i>	\$ (28.1)	\$ -
<i>Campus efficiencies</i>	\$ (43.6)	\$ -
Total Unfunded Mandatory Cost Increases	\$ 213.1	\$ 222.4

CSU Budget Increase

The \$305 million General Fund increase proposed by the Governor for the California State University system would be used for the following:

- \$135 million for mandatory cost increases
- \$170 million for 21,266 full-time student equivalents (FTES)

CSU unfunded mandatory cost increases since 2007-08

(dollars in millions)

Mandatory Cost Growth Between 2007-08 and 2009-10

Faculty general salary increase (2%, effective 6/30/08)	\$ 30.6
Faculty merit salary adjustments	\$ 14.0
Health insurance premiums	\$ 29.9
Dental insurance premiums	\$ 2.7
Annualized service-based salary increases	\$ 4.2
New space (utilities/maintenance)	\$ 15.1
Energy price increases	\$ 16.2
Total for 2007-08, 2008-09, and 2009-10	\$ 112.7

Mandatory Cost Growth For 2010-11

Health insurance premiums	\$ 9.7
Energy price increases	\$ 7.2
New space (utilities/maintenance)	\$ 5.4
Total for 2010-11	\$ 22.3

Total Unfunded Mandatory Costs since 2007-08 \$ 135.0

It is important to note that the \$170 million for student enrollment would pay for existing enrollment at CSU that is currently unfunded. It would fund instruction costs for 21,266 FTES at \$7,965 per student. The cost of enrollment is discussed in greater detail under Issue 6 on page 13.

CCC Budget Increase

It is important to note that the community colleges are funded primarily through Proposition 98, which is a funding level determined by mathematical formulas and is largely impacted by the State's General Fund revenues. If the State's revenues fall, there will be fewer Proposition 98 dollars available. If fewer dollars are available, the Legislature's ability to increase community college funding will be severely limited. Conversely, if Proposition 98 obligations increase, more dollars will be available to support the community colleges

The \$126 million General Fund increase proposed by the Governor would be used to support existing enrollment that is currently unfunded. These funds would allow the community college system to continue offering courses to 26,000 FTES (60,000 headcount) students. In 2009-10, due to high enrollment demand, the community colleges are serving approximately 90,000 FTES (200,000 headcount) students above their funded levels. Without these funds, the community college system will further reduce their course offerings for 2010-11, leaving more students without the courses necessary for transfer or completion of degrees.

Item 2: CPEC Comments on Governor's Budget - Informational

Speaker: Karen Humphrey, Executive Director, CPEC

About CPEC. The California Postsecondary Education Commission (CPEC) was established in 1974 as the State planning and coordinating body for higher education. CPEC serves a role in integrating policy, fiscal, and programmatic analyses regarding California's entire system of postsecondary education.

The primary statutory purposes of CPEC are to:

1. Develop an ongoing statewide plan for the operation of an educationally and economically sound, vigorous, innovative, and coordinated system of postsecondary education;
2. Identify and recommend policies to meet the educational, research, and public service needs of the State of California; and
3. Advise the Governor and Legislature on policy and budget priorities that best preserve broad access to high quality postsecondary education opportunities.

Notably, CPEC does not license or regulate private postsecondary institutions. The Bureau for Private Postsecondary Education in the Department of Consumer Affairs handles private postsecondary institutions.

The Improving Teacher Quality (ITQ) State Grants Program. The ITQ program gives states federal funds to improve teacher quality and raise student learning in the core academic subjects of mathematics, science, arts, civics and government, economics, English, foreign languages, geography, and history. Since federal funds were first allocated to postsecondary institutions for this purpose in 1984, CPEC has administered the grants. CPEC awards the funds through competitive grants to partnerships between California institutions of higher education, local educational institutions and nonprofit organizations for the professional development of current and prospective teachers.

CPEC Budget

(dollars in thousands)

	2007-08	2008-09	2009-10	2010-11
General Fund	\$ 2,105	\$ 1,958	\$ 1,808	\$ 2,013
Federal Funds	\$ 8,637	\$ 8,603	\$ 9,012	\$ 9,033
Total	\$ 10,742	\$ 10,561	\$ 10,820	\$ 11,046

** Pass-through funds for grant award recipients of the federal teacher training program*

Item 3: Federal Maintenance of Effort Requirement - Informational

Speaker: Steve Boilard, Legislative Analyst's Office

The American Recovery and Reinvestment Act of 2009 (ARRA) requires that federal ARRA funds not replace state funding for programs, but rather supplement state spending. ARRA sets the 2005-06 fiscal year as the base for state funding that must be maintained into the future as a condition of accepting ARRA funds. The State agreed to meet the maintenance of effort (MOE) as a condition of accepting the funds.

For the Governor's budget to meet the MOE requirement, deferrals are counted in the fiscal year in which they are programmed, as opposed to received, by colleges. Local property taxes, which are counted in the CCC Proposition 98 limit, are not counted towards the MOE requirement (and thus not shown in the chart below).

Higher Education General Fund Appropriations

(dollars in millions)

	MOE Base Year 2005-06	2008-09	2009-10	Proposed 2010-11
University of California	\$ 2,839	\$ 2,418	\$ 2,596	\$ 3,019
California State University	\$ 2,596	\$ 2,155	\$ 2,351	\$ 2,723
California Community Colleges	\$ 3,423	\$ 4,306	\$ 3,915	\$ 3,999
Total Higher Education Funding	\$ 8,858	\$ 8,879	\$ 8,862	\$ 9,741
Difference from 2005-06		\$ 21	\$ 4	\$ 883

Item 4: Student Fees

Speakers:

- Judy Heiman and Paul Steenhausen, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

Recent Student Fee Increases. The UC Regents have approved a 9.3 percent student fee increase for 2009-10, and an additional 15 percent mid-year student fee increase for 2009-10, for a total increase of 17.5 percent in 2009-10. The UC Regents also approved a 15 percent student fee increase for 2010-11. These fee increases are projected to provide \$564.8 million in new revenue for the UC system during 2010-11 that backfills for previous General Fund cuts.

The CSU Board of Trustees has approved a 32 percent student fee increase for 2009-10 and proposed a ten percent fee increase for 2010-11, to be "bought out" with General Fund. The Governor denied the fee buy-out and instead assumed an additional 10 percent student fee increase for 2010-11, which would bring \$153.5 million in additional revenues to the CSU system. These new student fee revenues are used to backfill for previous General Fund cuts. The proposed ten percent fee increase would bring the total fee increases at CSU since 2006 to 76 percent.

The CCC fees are set by the Legislature as part of the budget process. The CCC fees were increased by 30 percent from \$20 per unit to \$26 per unit in 2009-10. The Governor is not proposing any increases in CCC fees.

Student Fees for Resident Undergraduates

	2006-07	2007-08	2008-09	2009-10	2010-11
University of California	\$ 6,141	\$ 6,636	\$ 7,126	\$ 8,373	\$ 10,302
California State University	\$ 2,520	\$ 2,772	\$ 3,048	\$ 4,026	\$ 4,429
California Community Colleges*	\$ 690	\$ 600	\$ 600	\$ 780	\$ 780

**For full time student taking 30 units*

Student Fee Levels Unpredictable. Student fee increases are not regulated in statute for UC and CSU, and thus can change from year to year with little predictability for students. Student fees have been erratic and unpredictable over the course of the past few years, making it difficult for families to conduct financial planning for higher education costs. Though the higher education *Compact* attempted to create stability in student fee increases, that attempt was not successful due to the State's inability to guarantee stable core funding for the segments.

California Student Fees Still Competitive Nationally. The California Postsecondary Education Commission (CPEC) conducts a comparison study of California's undergraduate resident student fees and student fees at comparable institutions nationally. Even with the recent enacted student fee increases, California's student fees are still below average for UC and CSU, and lowest in the nation for CCC.

Annual Student Fees for UC and Comparison Institutions

	2009-10
University of Illinois	\$ 12,508
University of Michigan	\$ 12,400
University of Virginia	\$ 9,872
University of California	\$ 9,311*
University at Buffalo, New York	\$ 7,013

Average for Comparison Universities \$ 10,448

**Includes campus fees voted in by the students*

Annual Student Fees for CSU and Comparison Institutions

	2009-10
Rutgers University	\$ 11,886
Illinois State University	\$ 10,531
University of Connecticut	\$ 9,886
Wayne State University, Detroit	\$ 9,272
University of Maryland	\$ 8,872
University of Wisconsin	\$ 8,522
University of Texas	\$ 8,186
George Mason University	\$ 8,024
Cleveland State University	\$ 7,920
Georgia State University	\$ 7,298
Arizona State University	\$ 6,846
University at Albany, New York	\$ 6,698
University of Colorado	\$ 6,542
North Carolina State University	\$ 5,474
California State University	\$ 4,893*
University of Nevada, Reno	\$ 4,856

Average Comparison University \$ 8,054

**Includes campus fees voted in by the students*

Governor's Budget. The UC fee increases in the Governor's Budget have already been approved by the UC Regents. The Governor's Budget assumes a fee increase of 10 percent for the CSU system that has not yet been approved by the CSU Board of Trustees. There are no fee increases proposed by the Governor for the CCC.

LAO Alternative. The LAO proposes increasing fees at the Community Colleges to \$40 per unit. An increase of 53.8 percent to \$40 per unit (from \$26 per unit) would mean that a full-time student taking 30 units per academic year would pay \$1,200. The LAO estimates that these higher fees would generate approximately \$150 million in additional revenues to the CCC system. These revenues would effectively provide funds for CCC enrollment (\$126 million in Governor’s Budget) as well as “buy out” the Governor’s proposal to apply a negative COLA to the system. Even at this higher amount, CCC fees would still be the lowest in the country.

The LAO notes that there are numerous financial aid programs to assist students with higher community college fees: the Board of Governor’s Waiver (BOG waiver), federal American Opportunity Tax Credit (AOTC), Lifetime Learning Credit, and tuition and fee tax deduction. The BOG waiver program has relatively high income cut-offs. For example, a student with one child could have an income up to roughly \$80,000 and still qualify for a waiver. Students taking advantage of AOTC would qualify for a full fee credit—while leaving room to receive up to \$800 as reimbursement for course-materials costs. The LAO estimates that about 90 percent of CCC students would qualify for either a BOG waiver or a full or partial tax offset to their fees, and that roughly three-quarters of these students would effectively pay no fees at all.

Staff Comment. Currently, 47 percent of community college FTES receive the BOG waiver. The students who qualify for tax credits, but do not receive BOG waivers, must first pay the education costs themselves and apply for the tax credit. This need to have available cash can make affording college more difficult.

There are many students who receive the BOG waiver but do not apply for federal financial aid grants or loans. This may be because students do not know about federal financial aid, or do not want to go through the more difficult application process for federal financial aid when they can have their tuition paid for with the simple BOG waiver form. Students who qualify for a BOG waiver have such low income levels that many of them would also qualify for federal financial aid.

Fee increases impact those students the most whose families earn just enough to not qualify for state financial aid, but who are not financially independent enough to have established reserves to pay for higher education. These middle-class students may have to take out loans to cover not only their tuition, but living expenses as well. Most State financial aid is structured to cover the full tuition of the student who receives aid (including fee increases) but does not offer partial-aid packages to students whose family income is just above the cut off.

Staff Recommendation. Staff recommends the Subcommittee hold this issue open until more accurate state revenue projections become available in the spring.

**Student financial aid will be discussed in greater detail at the April 22 hearing.
Student fee levels will be discussed in greater detail at the May 6 hearing.**

Item 5: Student Completion Rates

- Judy Heiman and Paul Steenhausen, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

Budget Impacts on Completion Rates. It is difficult to predict what impact budget reductions for the segments will have on the student completion rates. It is possible that with fewer course offerings students will take longer to graduate or transfer since the required courses may not have enough space for all students needing the class. However, the full impact of reducing course offerings will not be known for several years.

UC and CSU. Higher education completion rates refer to the number of students who successfully acquire a degree. The charts below represent those students who enter the system as freshmen, or who transfer into the system from a community college.

Undergraduate Student Completion Rates for Freshmen Entering in 2002

	4 Years	5 Years	6 Years
UC	55.8%	78.4%	82.2%
CSU	14.3%	37.7%	48.9%

Undergraduate Student Completion Rates for Transfers Entering in 2002

	2 Years	3 Years	4 Years	5 Years	6 Years
UC	47.3%	78.7%	84.7%	NA	NA
CSU	NA	50.3%	62.9%	67.9%	70.1%

It is important to note that the CSU system has many students who attend part-time, while the UC system does not have as many part-time students. Attending courses only part-time will extend the amount of time to graduation.

CCC. The community college system has students who are taking courses recreationally or for continuing education without the intent to complete a degree. Thus, the CCC system completion rates are tracked as the number of students who complete degrees or transfer, rather than as a percentage of total students.

- **Transfers:** 105,957 in 2007-08
- **Degrees:** 133,812 in 2008-09

Student outcomes will be discussed in greater detail at the May 13 hearing.

Item 6: Student Enrollment

Speakers:

- Mark Whitman, Legislative Analyst's Office
- Patrick Lenz, University of California
- Robert Turnage, California State University
- Erik Skinner, California Community Colleges
- Lynn Podesto, Department of Finance

Enrollment Target Background. Prior to the *2008-09 Budget Act*, the Legislature traditionally provided an enrollment target for each of the higher education segments. This enrollment target constituted the funded Full-Time Equivalent Students (FTES) that the segment was expected to enroll. If the higher education segments enroll more students than their funded FTES, these additional students are not financed by the state and are called unfunded FTES. Each of the higher education segments exceeded the enrollment target provided by the Legislature in the *2007-08 Budget Act*.

Higher Education FTES for 2007-08

	UC	CSU	CCC
Budgeted FTES	198,455	342,893	1,169,606
Unfunded FTES	5,451	11,021	13,021
Total FTES	203,906	353,914	1,182,627

Master Plan for Higher Education. The Master Plan for Higher Education was first developed in the 1960s. It defined roles for all three public higher education segments in California. The UC system is to admit the top 12.5 percent of students. The UC system will also provide PhD degrees and conduct research. The CSU system is to admit the top one-third of students. The CCC system is to admit anyone who may benefit from higher education.

Segments Response to Budget Cuts Since 2008. Due to the steep General Fund cuts to each of the segments' budgets in 2008-09, the Legislature eliminated the enrollment targets with the understanding that the segments could decide to address their budget cuts by reducing enrollment.

University of California and California State University: Both the UC and CSU have attempted to reduce or eliminate unfunded FTES as General Fund support for the higher education institutions has been reduced. The result has been that fewer freshmen have been admitted into the UC and CSU systems. The CSU system also took steps to force "super-seniors" with more than 142 units completed to graduate or leave the system. The CSU system expects to serve 14,000 fewer students in 2010-11 than in 2007-08. The UC system has grown by about 6,000 students from 2007-08 to 2010-11.

California Community Colleges: The CCC is not able to deny admission to students, as their statutory mandate states that they must admit anyone who might benefit from attending a community college. However, students register for classes that have available space on a first-come-first-serve basis. Enrollment restriction occurs when courses do not have available space. The Community College Chancellor's office estimates that the 2009-10 unfunded FTES reached about 90,000 (200,000 headcount) for the entire system. This number does not include students who attempted to enter the CCC system, but were unable to enroll in courses they needed and left for private colleges or chose not to pursue higher education at all.

Higher Education FTES Totals

	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Estimated)	2010-11 (Proposed)
UC	203,906	210,558	212,888	209,977
CSU	353,914	357,223	340,643	339,873
CCC	1,182,627	1,260,497	1,250,000	1,188,129

Governor's Budget 2010-11. The Governor's proposal for enrollment growth is dependent on the receipt of \$6.9 billion in additional federal funds. If the federal funds do not materialize, which at this point it appears they will not, the shortage of federal funds will "trigger" cuts throughout the budget. The proposed enrollment growth funds are on this trigger cuts list. The Governor proposes the following enrollment growth:

- UC: \$51.3 million General Fund for 5,121 FTES
- CSU: \$60.6 million General Fund for 8,290 FTES
- CCC: \$126 million General Fund for about 26,000 FTES

Budget Bill Language. The Governor's Budget also includes provisional language setting enrollment targets for UC and CSU. Including this language requires the UC and CSU systems to spend their funds to enroll the mandated number of students, but by so doing potentially limits the amount of special services to the students who are already enrolled.

LAO Recommendation. The LAO notes that the Governor proposes new enrollment targets for both UC and CSU. These enrollment targets were determined in two steps:

- First, the administration estimated the number of students it assumes the universities would have funding to serve in 2010-11 after current-year, one-time reductions are restored.
- Second, the Governor added 2.5 percent enrollment growth for new budgeted enrollment levels of 209,977 FTE students at UC and 339,873 FTE students at CSU. These levels are less than current-year enrollment for both segments.

The LAO notes that both UC and CSU have adopted plans to reduce the number of new students admitted in 2010-11. In February 2010, UC was planning to curtail freshman enrollment by 1,500 FTE in 2010-11 -- on top of the 2,300 FTE reduction in 2009-10. In

contrast, UC plans a modest expansion of transfer enrollment with an increase of 500 FTE students.

The LAO notes that the CSU has adopted a plan to reduce its enrollment by approximately 30,000 FTE students in the budget year. This would represent a reduction of approximately 9 percent from current-year levels, and a two-year decrease of 13 percent (almost 47,000 FTE students). Similar to UC, CSU indicated the reduction could be less severe if augmentations -- such as those provided in the Governor's budget -- are provided, but that it still expects to reduce enrollment compared to the current year.

In the LAO's view, providing enrollment growth funding for the universities in the budget year does not make sense because neither UC nor CSU would actually enroll more students. In fact, the Governor's proposed enrollment levels, as well as the segments' own plans, call for reduced enrollment in 2010-11. For this reason, the LAO recommends that the Legislature reject the Governor's proposal to provide UC and CSU \$112 million for enrollment growth in 2010-11. As noted in Item 4 (page 11), the LAO recommends that the CCC enrollment growth effectively be paid for with increased student fees.

Staff Comment. The funds that are listed as "enrollment growth" in the Governor's Budget should really be viewed as "enrollment preservation". These enrollment growth funds only fund current FTES, which have been funded with one-time funds during the 2009-10 budget year. If the one-time funds are not backfilled in the 2010-11 budget, enrollment could be negatively impacted in the UC, CSU, and CCC campuses. If the enrollment growth funds are not provided, the UC and CSU systems will reduce their enrollment by turning away more potential first-time freshmen in 2010-11. The CCC cannot turn away potential students, but those wanting to enroll in courses will find it much harder to get into the classes they need to graduate or transfer.

Staff Recommendation. Hold open until more accurate state revenue projections become available in the spring. Once the state's overall fiscal resources are more clearly determined the Subcommittee will have more clarity into the feasible amount of students for the three segments and the number of FTES enrollment the budget bill language should specify.

Student enrollment will be discussed in greater detail at the May 6 hearing.